

African Forum for Utility Regulators

Forum Africain pour la réglementation des services publics



EXPERIENCES AND DIFFICULTIES ENCOUNTERED IN ELECTRICITY INFRASTRUCTURE REGULATION ACROSS AFRICA

Introduction



Sub-Saharan Africa is trailing other regions in terms of infrastructure service and delivery:

- ◆ 30% of African population has access to electricity compared to 75% for other LDCs
- ◆ 65% has access to water and sanitation against 80% for other LDCs
- ◆ 34% access to roads compared to 50% for other LDCs



Approaches on Infrastructure Development



- ◆ The electricity supply (ESI) industry was considered to be of strategic importance organized as public monopolies provided by state owned utilities
- ◆ It was widely believed that Government was the only party that could supply equitably and at low cost
- ◆ The objective was to make infrastructure work for both economic and social development
- ◆ The model of state owned utilities proved inefficient for political, bad investment decisions, low productivity, etc



Approaches (continued)

- ◆ The perception of the inefficiency of public monopolies supported the new thinking weighing more heavily on the side of market forces
- ◆ The shift was towards both private ownership and private management
- ◆ This shift was often under pressure of international development institutions
- ◆ The objective was to promote private investments, and efficiency through better service delivery, competition and sound regulation



Approaches (continued)

- ◆ A number of African countries thus established regulators dedicated to ESI or combining with water or other energy sources
- ◆ Initially, Regulators focused on their attention on protection of private sector investment
- ◆ They focused less on the end consumer
- ◆ There was less regard to issues such as determining the need for new generation or facilitating cross-border trade



Approaches (continued)

During the 1990s, the international community viewed assistance for infrastructure with skepticism.

They contended among others that though important for economic growth:

- Infrastructure had little relevance to poverty reduction
- Actual benefits from infrastructure were significantly less than anticipated
- Weak governance and institutions gave way to corruption
- Distorted investment choices and neglected maintenance



Approaches (continued)

- ◆ All sources of funding fell dramatically since the 1990s
- ◆ The widely held belief that private investment in infrastructure would increase also proved incorrect
- ◆ Private sector investment has been limited in terms of volume, sectors and countries

Difficulties with Historic Approaches to Infrastructure Development



- ◆ Where privatization did take place, it soon became clear that this was not a simple answer to infrastructure problems
- ◆ It was found to have little relevance for poverty reduction
- ◆ Privatization led to poor service and disillusioned customers linked to poor governance and a mind set not oriented towards competition
- ◆ The privatization model on its own was not an answer
- ◆ In some countries, this led to slow-down of privatization and reversal to privatization in others



Difficulties (continued)

- ◆ A compromise or pragmatic solution may be more advantageous than either a privatization or government led approach
- ◆ These solutions of combinations between state and private sector have many forms:
 - Sharing of benefits and responsibilities by both
 - Concessions
 - Some reservation of new generation to private sector etc
- ◆ Regulators will more and more be faced with models that are hybrids between private sector and state

Issues and Problems in ESI Infrastructure Regulation



- ◆ Regulators face many challenges in infrastructure regulation as follows:
 - Policy constraints
 - Energy planning
 - Independent Power Producers policy
 - Regulatory constraints
 - Tariffs and pricing
 - Private sector participation

Pragmatic Approach to Regulation- Discussion Issues



- ◆ Much needs to be done to address difficulties in regulating ESI infrastructure i.e. encouraging new investments
- ◆ No particular philosophy whether state approach or private sector offers easy solution
- ◆ Useful to consider approaches whereby the existing situation is acknowledged but then improved

Pragmatic Approach (continued)



Policy Considerations

- ◆ Governments to provide the leadership needed to establish effective and coordinated processes that address key policy issues in an integrated manner
- ◆ Governments to pay greater attention to suitable legislative frameworks in order to guarantee regulatory independence to give investors assurance
- ◆ Regions to harmonize national electricity policy frameworks so that complementarities in resources are reconciled with national self-sufficiency goals

Pragmatic Approach (continued)



Policy Considerations (Continued)

- ◆ Policies should attach importance and weight to IPP development and private sector development
- ◆ Individual countries also need to take firm decisions and commit to regional policy e.g role of state owned utilities and aligned to private sector participation
- ◆ State policies should be adhered to and implemented and not changed without stakeholder participation

Pragmatic Approach (continued)



Pricing and Tariffs

- ◆ The principle is that electricity utilities need to be financially healthy charging tariffs that reflect the cost of supply
- ◆ The utilities must be accountable for quality of service
- ◆ Regulators to approach tariff adjustments with the aim of ensuring that the services is sustainable and that there are incentives for system expansion
- ◆ A competent and independent regulator should also take into account, not just purely economic factors but broader societal issues

Regional Integration and Harmonization



- ◆ Regional integration is critical and should lead to a bigger market and more efficient system and effective trading
- ◆ Regions with harmonized frameworks to investment in ESI will lead to foreign investors looking at larger markets with reduced risks rather than individual countries
- ◆ Creation of more investor confidence and enhancement of prospects for investments in ESI will result

Pragmatic Approach (continued)



Updating of Legal and Regulatory Frameworks

- ◆ ESI legal and regulatory frameworks to accommodate IPPs and private sector involvement in generation, transmission is needed
- ◆ Investigation to develop standard electricity legislation that would ensure uniform regional electricity policy through initiatives such as AFUR
- ◆ Creation of independent regulators where they do not yet exist and strengthening of existing regulators
- ◆ Governments to understand the importance of autonomous decision making in facilitating

Recommendations





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